

Highlights of the week



Presidential debate reveals characters and attitudes

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Muhammadiyah mired in politics

In its *tanwir* (enlightenment) meeting on Feb. 15 in Bengkulu, Indonesia's second-largest Islamic organization Muhammadiyah reaffirmed its political neutrality and preference for moderation ahead of the April general election. While some may praise Muhammadiyah's consistent neutrality, its distinct detachment from partisan politics may push the organization into the periphery and into irrelevance. Its disengagement from political parties hinders the organization from effectively pushing its moderate values into domestic politics.



Importing rice not a sin for Indonesia

During the second presidential debate, presidential candidate Prabowo Subianto attacked incumbent Joko "Jokowi" Widodo for the latter's importation of rice and claimed that if he was elected president, he would make Indonesia self-sufficient not only in rice but also in other foodstuffs. Jokowi responded that achieving self-sufficiency in rice without importation would take time as it needed infrastructure to support rice production.



It's time for airlines to lower air fares

Air transportation users were surprised to find airfares remained relatively high in the middle of January and as late early February, despite the high season supposedly ending. Not only that, customers of courier companies also complained that their goods were delivered late to their destinations. They found out later that the courier companies had used land and sea transportation means instead of airlines because of rising freight charges. This situation led to public outcry, prompting the government to intervene.

POLITICS

Presidential debate reveals characters and attitudes, good and bad

The Feb. 17 debate between the contenders for the presidential race revealed more about the candidates' characters, attitudes and communication skills, and less on their policy intentions. Incumbent President Joko "Jokowi" Widodo outsmarted challenger Prabowo Subianto and even earned two Gotcha! points. With most surveys showing that up to 20 percent of voters are still undecided or wavering, these debates could still prove crucial in deciding the election outcome. But with one candidate going into the debate barely prepared and with little or no ammunition, some observers say his lack of motivation indicated that the election is more or less settled.

Takeaways:

- Rather than a platform to showoff, the presidential candidate debate plays a central part in garnering support from both swing voters and the rival's camp by highlighting candidates' communication skills and general knowledge under pressure.
- The last presidential debate raised questions on whether challenger Prabowo Subianto really wants to win the fight. He has taken part in two election debates in 2009 and 2014, so has little excuse for being unprepared, even though neither Jokowi nor Prabowo showed superb communication skills.
- As important as communication skills is preparation prior to a debate, which is often overlooked as candidates tend to underestimate the importance of public debate.
- In the case of last week's debate, numerous jokes on Prabowo that emerged on social media following the candidate's muted responses to Jokowi's difficult questions on "unicorns" and land ownership showed how inadequate preparation can heavily affect public perception on candidates.

Background: Just two months before the April 17 vote, most opinion surveys showed President Jokowi leading comfortably with 50 to 55 percent of the votes, against 30 to 35 percent for Prabowo. Prior to last week's debate, the second of five rounds scheduled by the General Elections Commission (KPU), many had expected Prabowo to take a more aggressive or attacking stance. But the former Army general went into the debate unprepared and may have squandered his one chance to close the gap.

The second debate focused on energy, food, infrastructure, natural resources and the environment. Jokowi naturally highlighted his achievements of the last five years and supported his claims with plenty of facts and figures. Surprisingly, Prabowo did not exploit the glaring flaws and shortcomings easily found among the achievements of his opponent's economic policies. Prabowo had no effective weapons to attack the incumbent. His lackluster performance, put by many down to his lack of preparation, raised questions, particularly among his own staffers and supporters, about the lack of personal drive or motivation to win this year's election. Does he still have what it takes?

Both candidates should be familiar enough with the rigors of the debates. Prabowo was vice-presidential candidate in 2009 and a presidential candidate in 2014. Jokowi, despite his reputation as a man of few words, experienced the 2014 presidential debate and the debate in the

Jakarta gubernatorial election in 2012. So, it was not for lack of experience that Prabowo wasted his chance. It was the tell sign of a loser even before the fight begins.

Insight: The widely televised debate was nothing more than a political show, albeit an important one, if you are one of the millions of people who have not made up your mind on who to vote for in the presidential race. How the candidates handled themselves, answered the questions and responded to unexpected questions, all were put on display that night.

Political pundits have raised public expectations that these debates should reveal policy details of the candidates. Naturally, they were disappointed. But if details is what they are asking for, they should visit the candidates' websites and go through the dozens of pages of detailed vision and mission statements. The candidates cannot be expected to master all the details that have been drawn up by their campaign managers, but they should at least be able to present the vision of where they want to take Indonesia.

More important than policy details, the Indonesian public have come to learn that these debates have served well to inform them about the characters and attitudes of the candidates, and how well they communicate their messages, and how they handle arguments before the public. Communication experts would most likely tell you that both Jokowi and Prabowo failed the test of communicating their political message, perhaps one more so than the other. They are in good company. Past candidates taking part in public debates, which have been a feature of presidential elections since 2004, have all come out poorly. Two-time president Susilo Bambang Yudhoyono beat the likes of Megawati Soekarnoputri, Amien Rais, Prabowo and Jusuf Kalla, not because he was a great communicator. He did so because, compared to them, he was the one who prepared best for the occasion. Most others appeared to have taken the debates lightly, going in unprepared. They paid a heavy price.

It's the same story with Jokowi in the 2019 race. Prabowo clearly had not done his homework going into the debate. It's a lesson for all future president wannabees. Having good communication skills is indispensable for leaders and politicians in this era of the TV and internet.

Candidates also need a good communication strategy, especially in handling surprises, or Gotchas! that are bound to come out in such public debates, like it or not. In the first round of the debate, all the questions had been shared with the candidates beforehand. But that round was widely criticized as coming across as stiff and much too choreographed. Learning from that round, the KPU relaxed the regulations and the questions for the second round, prepared by panelists and some by the candidates, would not be revealed until that night.

Jokowi threw one Gotcha! last Sunday when he asked his opponent about his policy intention with regards to unicorns. The term caught the 67-year-old Prabowo unaware. He wavered and asked for confirmation: "Unicorn? You mean those online things?" Although Prabowo answered the question well, that phrase became the butt of jokes on social media for the next few days.

In 2014, Jokowi pulled a fast one too when he asked Prabowo about his policy on "TPID" without explaining that the acronyms stand for the Indonesian name of the Regional Inflation Monitoring Team. Prabowo struggled to find the answer to a question he did not understand to begin with.

Last Sunday, when Prabowo criticized Jokowi for his policy of handing out millions of land certificates to poor people as ineffective, Jokowi said the objective was to redistribute land titles to poor farmers, from those individuals and big corporations that control vast swaths of productive land. And obviously prepared for the question, Jokowi reminded Prabowo that he himself controls hundreds of thousands of hectares of land in East Kalimantan and Aceh.

One thing that candidates would not want to do, in spite of the temptations, is throw in lies in the debate. A team of journalists recruited from 10 media outlets were assembled, courtesy of Google, the night of the debate to verify every single claim the candidates made and would call out fakes or dubiousness whenever they claimed something that was not supported by facts.

With the debate now a permanent feature of the election campaigns in Indonesia, and measures in place to curtail the use of fake claims, any candidate running for office should take the debate seriously by honing their political communication skills. The best communicator will likely win the debate and the election.

Muhammadiyah mired in politics

In its *tanwir* (enlightenment) meeting on Feb. 15 in Bengkulu, Indonesia's second-largest Islamic organization Muhammadiyah reaffirmed its political neutrality and preference for moderation ahead of the April general election. While some may praise Muhammadiyah's consistent neutrality, its distinct detachment from partisan politics may push the organization into the periphery and into irrelevance.

Takeaways:

- Muhammadiyah's *tanwir* last week reaffirmed the organization's commitment to a moderate stance ahead of the 2019 general elections. Its disengagement from political parties, however, hinders the organization from effectively pushing its moderate values into domestic politics.
- Muhammadiyah's failure to embed its moderate values in its members has led to growing individualism among the members. Consequently, it is quite possible that Muhammadiyah members will discard the organization's moderate stance once they join political parties.

Background: While delivering his speech at the most recent *tanwir*, Muhammadiyah chairman Haedar Nashir discussed the rise of sectarianism in the country in the current political year and its detrimental consequences. Citing the emergence of divisive "religious absolutism" in Indonesia, Haedar warned of a gradual integration of politics and religion ahead of the elections.¹ He further argued that the politicization of religion often resulted in the "unenlightened implementation of Islam", giving rise to extremism, intolerance and social polarization.²

Haedar highlighted the role of religions in guiding human beings into an "enlightened" life. It is the objective of Muhammadiyah, thus, to promote Islam as an enlightened religion, particularly in today's turbulent times. Muhammadiyah's 2019 *tanwir* clearly defines what constitutes as enlightened Islam³, including:

¹ *The Jakarta Post*, "Islamic group warns against deepening polarization," Feb. 16, 2019, <https://tinyurl.com/y287n4yk>

² Ibid.

³ Muhammadiyah, "Keputusan Tanwir Muhammadiyah Tahun 2019 di Kota Bengkulu Tentang Risalah Pencerahan," Feb. 17, 2019

- a. Religion that develops moderate perspectives, stances, attitudes and practices;
- b. Religion that addresses contemporary issues such as poverty, ignorance and underdevelopment;
- c. Religion that promotes responsibility and literacy on social media;
- d. Religion that understands and actualizes the concept of jihad as efforts to realize a human existence that is developed, fair, prosperous, dignified and independent as a whole;
- e. Religion that encourages noble political behavior coupled with a humane, tolerant and peaceful stance on different political perspectives.

Muhammadiyah's 2019 *tanwir* reaffirms the organization's adoption of *Wasatiyyah* Islam, or a moderate Islam, which encompasses the values of "tolerance, balance, equality, consensus, reformism" in envisioning the best kinds of Muslims.⁴ It is the organization's objective to propagate such perspectives in the political realm.

Realizing this objective is a complicated matter considering Muhammadiyah's consistency in avoiding electoral politics. Although Muhammadiyah allows its members to take part in politics and join any political party, Muhammadiyah requires that its members revoke their Muhammadiyah membership before joining parties. It is generally expected, however, that Muhammadiyah members will continue to pursue the organization's championed moderate values even after leaving.

Recent occurrences, however, indicate how individualism grows stronger in Muhammadiyah, as indicated by the increasing number members who are pursuing individual political interests that contradict Muhammadiyah's moderate perspective ahead of the April elections. Consequently, this will put Muhammadiyah in an unfavorable position. On one hand, its constant disengagement with political parties prevents Muhammadiyah from gaining direct influence in domestic politics. On the other hand, the growing individualism among its members prevents the organization from indirectly influencing the national political landscape through the promotion of a moderate stance.

Insight: Muhammadiyah is known for its prevalent political impartiality, officially marked by its declaration of *khittah* (staying out of politics) policy in 1971, which highlighted the organization's autonomy from political parties. The latest example of Muhammadiyah's neutrality is the resignation of former Muhammadiyah chairman Muhammad Sirajuddin "Din" Syamsuddin from his post as a presidential envoy for religious harmony. He cited his desire to remain neutral in the 2019 presidential election as the main reason behind his decision to resign.⁵

Nevertheless, ahead of the 2019 general election, instances of individual political interest trumping over Muhammadiyah's collective objectives have tarnished the organization's reputation as a politically neutral group. The most notable example is Muhammadiyah central executive board adviser Amien Rais' political maneuvers in past years. Amien, who is also the patron of the National Mandate Party (PAN), has been outspoken in supporting presidential candidate Prabowo Subianto and criticizing the incumbent President Joko "Jokowi" Widodo. Instead of promulgating Muhammadiyah's idealized moderate and impartial stance, Amien has belittled the organization's neutral stance instead, urging it to pick a side for the 2019 election.⁶

⁴ RISIS, "Emergence of Wasatiyyah Islam: Promoting 'Middle Way' Islam and Socio-Economic Equality in Indonesia," Nov. 2, 2018, <https://tinyurl.com/y22egbaa>

⁵ *The Jakarta Post*, "Top Muhammadiyah figure resigns as Jokowi's special envoy," Sept. 22, 2018, <https://tinyurl.com/y3zgeiyq>

⁶ *The Jakarta Post*, "Muhammadiyah student group rejects Amien Rais' call to 'pick' candidate," Nov. 21, 2018, <https://tinyurl.com/yy4uddaq>

Equally controversial is what happened with Dahnil Anzar, former chairman of Muhammadiyah's youth wing Pemuda Muhammadiyah. Dahnil was appointed the coordinating spokesperson of Prabowo's national campaign team, which further tarnished Muhammadiyah's nonpartisanship image. The decision came after Amien urged Muhammadiyah to pick a side.

By supporting Prabowo and Sandiaga Uno, Amien and Dahnil risk undermining Muhammadiyah's trademark of neutrality and moderation. After all, the Prabowo-Sandiaga coalition is known for its close affiliation with hard-line groups such as the Islam Defenders Front (FPI) and the 212 Brotherhood Alumni, whose ultra-conservative beliefs go against Muhammadiyah's value of moderation.

Although prominent Muhammadiyah figures have since denounced both Amien's and Dahnil's political stances, the drastic measures they took have nonetheless reified the assumption of the spread of individualism among Muhammadiyah members and the organization's failure to successfully embed its moderate values into its members before they leave the nest and join political parties. In the case of Dahnil, his individualist politics even surfaced before he left his post.

Consequently, the absence of complete and active support of its members may hinder Muhammadiyah as it seeks to propagate an enlightened Islam. The latest indication of Muhammadiyah's failed efforts is President Jokowi's underwhelming response to Haedar's discussion of enlightening Islam in last week's *tanwir*. Straying away from the Muhammadiyah script, Jokowi's speech mostly conveyed his administration's achievements and clarified rumors about him.⁷

Prabowo's absence at the *tanwir* also indicates that Muhammadiyah is in a weak position should it hope to further its agenda in the political arena. Jokowi and Prabowo were initially expected to deliver a keynote speech using the *tanwir* theme. However, National Mandate Party (PAN) chairman Zulkifli Hasan announced a day before the event that Prabowo refused show up because the *tanwir* was scheduled to be held at a university campus. According to Zulkifli, Prabowo did not want to violate the Election Law by campaigning at a university⁸. Even though the organizers agreed to relocate the event, Prabowo still refused to attend.

To avoid further decline, Muhammadiyah needs to reconsider its strategy for promoting a moderate perspective. Muhammadiyah has formulated a set of recommendations. They include strengthening the state's political, economic and cultural sovereignty, overcoming socioeconomic inequality through progressive policies and reforming the bureaucracy progressively.⁹ Whether these recommendations can help Muhammadiyah to effectively promote its moderate perspective among its members or not, however, remains to be seen.

What we've heard: There is an apparent political division between Muhammadiyah elites in Jakarta and in other regions. For elites located in Jakarta, several decisions they made were based on which presidential candidate was most likely win the upcoming presidential election. Some of these decisions include "deploying" Dahnil Anzar to the Prabowo Subianto and Sandiaga Uno camp alongside other PP Muhammadiyah senior treasurers. Meanwhile, in the Jokowi-Ma'ruf camp, many Muhammadiyah representatives have already been deployed there,

⁷ *Tempo.co*, "Tiga poin pidato Presiden Jokowi di siding Tanwir Muhammadiyah," Feb. 19, 2019, <https://tinyurl.com/y5a8a48k>

⁸ PWMU, "Teka-teki kehadiran Prabowo di Tanwir Muhammadiyah dijawab Zulkifli Hasan," Feb. 14, 2019, <https://tinyurl.com/y4xecdg6>

⁹ See note 3

including Muhammadiyah member and Golkar Party politician Hajriyanto Thohari. Reportedly, most PP Muhammadiyah elites tend to support Jokowi.

Muhammadiyah's *tanwir* confirmed the alleged polarization between Muhammadiyah's elites. The elites who organized the *tanwir* devoted more efforts to facilitating Jokowi compared to Prabowo.

Furthermore, two days before the *tanwir*, there had yet to be any confirmation about who would open the event. It had been rumored that either Jokowi or Vice President Jusuf Kalla (JK) would open the *tanwir*. According to the initial event rundown, JK would officially start the *tanwir*.

Rumors about Jokowi starting the *tanwir* sparked allegations among Muhammadiyah's members about future *tanwir*: would it be transformed into a political platform for Jokowi? This is problematic because a large portion of *tanwir* participants from regions other than Jakarta still orient themselves to Amien Rais.

Moreover, the tendency of other Muhammadiyah cultural elites such as Busyro Muqqudas, also became another consideration for the *tanwir* participants.

Tanwir participants found Jokowi's speech disappointing. Rather than conveying messages about the role of Islam in regard to nationalism and statehood, Jokowi's speech mostly centered on attacks directed toward him throughout the campaign period instead. According to the source, Jokowi's speech/vent, coupled with the *tanwir*'s conclusion, made the whole event impractical and unreal.

Issue update: Conspiracy theories abound about foreign meddling in elections

Summary: When incumbent President Joko “Jokowi” Widodo on Feb. 3 talked about the use of “Russian propaganda” by the opposition in the election campaign, he upset the Russian government more than he hurt his lone challenger, Prabowo Subianto. Russian Ambassador to Indonesia Ludmila Vorobieva did not file a formal protest, but in a press conference the next day she denied any involvement by Moscow in the Indonesian elections, something that Jokowi's statement could have implied. She lamented the use of the term, which she said was borrowed from the conspiracy theories about Russian meddling in the 2016 United States presidential election.

The episode played into conspiracy theories about foreign governments trying to influence the outcome of the elections. Most had expected the United States or China to be targets, given their huge strategic political and economic interests. Few had thought of Russia as a possible player in Indonesia, until President Jokowi seemingly raised the possibility. The Presidential Office has since clarified that the reference did not apply to Russia at all and, just to be sure, a spokesman said the term had been dropped from the campaign lexicon to avoid another diplomatic faux pas.

Update: It remains unknown how and why the term “Russian propaganda” crossed President Jokowi's mind in the first place. Several members of Jokowi's internal team admitted that no one really knew who coined the term for Jokowi to hear.

It is certain, however, that since volunteers (not political parties) began their online campaign, the “firehose of falsehoods” strategy (a bombardment of lies or misinformation aimed at people to gain sympathy and/or votes for an election) has often been discussed. In cyberspace, stories about Prabowo and his team employing the strategy have been widely shared and circulated in WhatsApp and other social media, even among groups of the neutrals and the undecided in particular because of the contender’s penchant for hoaxes, which led to the imprisonment of some of Prabowo’s more outspoken supporters.

A source from Jokowi’s camp said that currently not all members of the President’s camp could easily reach Jokowi, even to merely remind the President not to touch on sensitive or taboo topics. Access to the President is not as unrestricted as it was during the 2014 presidential election. “Then, all team’s member could reach him and did not hesitate to do so. I don’t know why, but it’s difficult to do so now. Maybe because he’s President now,” said a volunteer who was recruited by a retired military officer.

Another source from a business consultancy firm said Prabowo and his running mate Sandiaga Uno did not officially hire a foreign consultant. Regardless, the pair does have foreign “friends” who advise them on conducting campaign activities in cyberspace. “Their foreign friends are not Russians. That’s what I know,” said the source.

According to a source who took part in Jokowi’s 2014 presidential campaign, Jokowi’s camp, too, has benefitted from the strategy since 2014. “So it’s not something new to use a database of Indonesia’s population [for a campaign strategy],” said the source.

Regardless, for this year’s election, the use of online databases for campaign activities is not as detailed as it used to be. In 2014, the database to map which segments could be manipulated was precise and sophisticated, while in 2019 the database contains more information on particular groups, as well as their interests and dislikes. “The database is available and ready for use. Yet, we still need a machine to process and analyze the data. It’s probably going to be expensive,” said the source.

The strategy, according to the source, gained popularity after Facebook’s database on its users was manipulated by the Cambridge Analytica election consultancy firm for the US’ 2016 presidential election. Data about Facebook users, including their likes and dislikes, as well as the algorithm, was processed by the required machine.

According to the source, Prabowo and Sandiaga’s team is targeting the urban lower-middle class who have gadgets and social media accounts. This is because the “campaign materials” used by the team are particularly attractive to the group. Another consideration is that the upper-middle class is difficult to win over as the group has been impressed by President Jokowi’s economic policies, according to the Prabowo-Sandiaga team.

BUSINESS & ECONOMIC POLICY

Importing rice not a sin for Indonesia

During the second presidential debate, presidential candidate Prabowo Subianto attacked incumbent Joko “Jokowi” Widodo for the latter’s importation of rice and claimed that if he was elected president, he would make Indonesia self-sufficient not only in rice but also in other foodstuffs. Jokowi responded that achieving self-sufficiency in rice without importation would take time as it needed infrastructure to support rice production. He said he had built 58 dams and thousands of water catchments to support rice irrigation, and yet, this was not enough as they only supplied water to 20 percent of all rice fields. Jokowi also claimed that rice imports had been declining since 2014, which is debatable.

Takeaway:

- The opposition parties try to portray Jokowi’s administration as being hungry for rice imports, but a look at the data shows that this administration is no different from previous ones in terms of rice imports.
- Trading and transportation margins in the domestic rice trade rose sharply during the Jokowi administration, indicating inefficiency that is penalizing customers and farmers.
- With productive paddy fields of 7.1 million hectares, Indonesia will continue to rely on rice imports to meet domestic demand and contain prices.
- Expanding paddy fields is a difficult proposition, which leaves the option of increasing output through intensification, i.e. raising per-hectare yields.
- A deficit in rice trade should be seen from a wider perspective, as domestic agriculture shifts toward a diversification in agricultural produce and as the overall economy moves from agriculture toward manufacturing and services.

Background: The Prabowo camp’s attacks on Jokowi over rice imports were well prepared. Weeks before the second debate, the Prabowo camp had created the narrative that “Jokowi is fond of rice imports” and “Jokowi the biggest importer of rice”.¹⁰

Prabowo’s economist Dradjad Wibowo presented data on rice imports from 1969 until 2018, which show that Jokowi, among all the presidents except B.J. Habibie during the economic crisis, has been the biggest importer of rice. On average, Dradjad said, Jokowi imported 1.17 million tons of rice per annum.¹¹

During his campaign prior to the second debate, Prabowo almost always raised the issue of rice imports. Despite the heavy imports, he claimed that Indonesians still paid high prices for rice, among the highest in the world.

Jokowi’s administration quickly responded to the attacks. Agriculture Minister Andi Amran Sulaiman argued that Indonesia’s current rice price of Rp 12,374 per kilogram was not among the highest in the world. It ranks 81st in the world, with the most expensive recorded in Japan at Rp 57,668 per kg and the lowest in Sri Lanka at Rp 7,618.¹²

¹⁰ CNBC, “Senjata Prabowo hajar Jokowi di debat capres: Impor Beras,” February 17, 2019. <https://tinyurl.com/yyku22hp>

¹¹ CNBCIndonesia.com, “Untuk urusan impor besar, Jokowi juaranya!”, January 31, 2019. <http://tinyurl.com/y4fp9ftx>

¹² Okezone.com, “Menteri Amran: Harga Beras Indonesia Peringkat 81 Termahal di Dunia,” February 17, 2019. <http://tinyurl.com/y5dhq9qy>

Amran also said that according to the United Nations' Food and Agriculture Organization's (FAO) 1999 definition of commodity production self-sufficiency, a country is said to be self-sufficient when its production of the said commodity achieves 90 percent of its national needs. And therefore, according to that definition, Indonesia has already achieved self-sufficiency in rice production.¹³

Rice imports under different administrations according to Prabowo campaign team		Rice imports under different administrations according to the Trade Ministry	
Administration	Tons per year	Administration	Tons per annum
Soeharto	816,000 (except 1989)	Soeharto (1993-1998)	1.3 million
B.J. Habibie	2.94 million	Wahid-Megawati (1999-2004)	1.7 million
Abdurrahman Wahid	773,000	Yudhoyono	2004-2009 468,000
Megawati Soekarnoputri	1.14 million		2009-2014 1.1 million
Susilo Bambang Yudhoyono	902,000	Joko Widodo (2014-2018)	1.08 million
Joko Widodo	1.17 million		

"From 2016 to 2018, we recorded a surplus of rice. We did not import rice in 2016 and 2017. The rice import recorded in 2016 was actually a spillover from the 2015 imports. In 2018, we booked a surplus of 2.85 million tons. This is the official data from Statistics Indonesia [BPS], and the imports in 2018 were for reserves," minister Amran said in a statement.

On rice imports, the Trade Ministry came out with data that differs from those of the Prabowo camp. Director General of International Trade Oke Nurwan noted based on the ministry's data from 1967 until 2018, rice imports had been common among all presidents, averaging around 1 million tons of rice per annum, except during the economic crisis in 1999 when the country imported 4.75 million tons – the highest ever. He noted that rice imports under Jokowi were still lower than those during the second term of president Susilo Bambang Yudhoyono (2009-2014), Abdurrahman Wahid-Megawati Soekarnoputri (1999-2004) and the last term of president Soeharto (1993-1998).¹⁴

The Indonesian Ombudsman also came out in defense of the Jokowi administration, saying that rice imports in the past four years under Jokowi totaled 4.7 million tons, still lower than those in the previous administration of 2009-2014, which totaled 6.5 million tons.

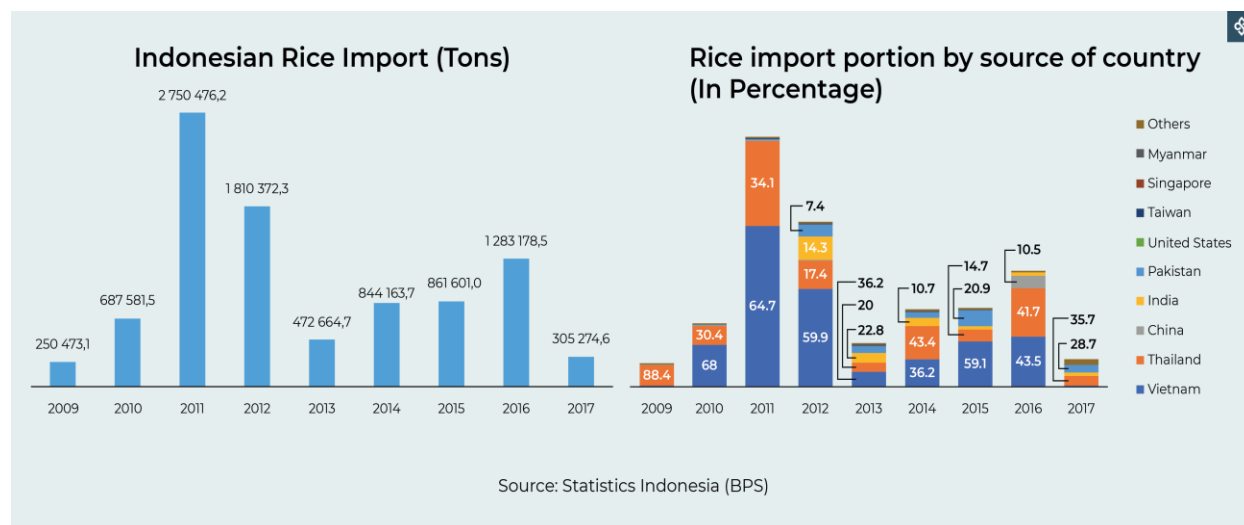
The Ombudsman said further that what was important for Indonesia was not reducing rice imports, or even stopping them, but keeping the rice price stable, as rice is the main staple food for most Indonesians. And the Jokowi administration, the Ombudsman said, had been proven capable of maintaining price stability for rice.

Insight: Rice in Indonesia is considered to be a political commodity. Any sharp price increase in rice would result in a lot of noise, from demonstrations in the streets to serious political consequences at the House of Representatives. Therefore, any government would take extra care to maintain the price stability of rice. And the administration of Joko "Jokowi" Widodo is no different. It takes all the necessary measures, including big imports before harvest

¹³ *Tribunenews.com*, "Menteri Pertanian Sebut Pemerintahan Jokowi-JK Berhasil Mencapai Swasembada Beras," February 18, 2019. <http://tinyurl.com/yxmwwbo8>

¹⁴ *CNBC*, "Soal 'Jokowi hobi impor beras' Kemendag keluarkan data baru, January 31, 2019. <http://tinyurl.com/y4ofo4yp>

time, to contain price increases. As a result, the Jokowi administration has been able to contain inflation at the level of 3 to 3.5 percent per annum.



Those in the opposition are well aware of the sensitivity of rice issues. When prices are relatively stable as they have been over the past few years, they focus on the issue of imports. Using available data, they try to portray that this current administration is hungry for rice imports. Although if we look at the data, this administration is no different from the previous ones in terms of rice imports.

The problem with the Jokowi administration is that it has been relying so much on rice imports to contain prices that it forgot to address inefficiencies in domestic rice trade that are causing big disparity between farm-gate prices and those paid by end consumers. The supply chains are just too long, and somewhere in the chain, traders take big margins, resulting in the disparity in prices. The latest BPS survey on commodity trade distribution patterns (Poldis) released on Feb. 15 shows that trading and transportation margin for rice rose sharply in the past two years from 10.43 percent in 2014 and 10.42 percent in 2015 to 26.12 percent in 2016 and 25.35 percent in 2017. This increase in the trading and transportation margin indicates inefficiency of domestic rice trade at the expense of customers or farmers.

Despite the inefficiency in rice trade, Indonesia will continue to rely on imports unless it is able to increase the acreage of productive paddy fields from 7.1 million hectares now, or only 0.03 hectares per capita. It is just enough to achieve self-sufficiency, whenever production is good, just like last year, when the country produced 32 million tons of rice and enjoyed a surplus of 2.85 million tons.¹⁵ However, when the harvest is not good, production rarely meets demand, and this situation often forces the government to import rice, just to fill the stocks and suppress possible price increases.

Indonesian politicians often refer to Thailand as a model, not only as a country that has achieved self-sufficiency in rice but also a major rice exporting country. Thailand is now the world's second-biggest rice exporter after India. Last year, its rice exports passed the 10 million tons mark, out of its total domestic rice output of 29 million tons.¹⁶ However, Indonesia is not comparable to Thailand, in terms of rice production area. With its population of 69 million people, Thailand has 10.8 million hectares of productive paddy fields, or 0.16 hectares per

¹⁵ *CNBC Indonesia*, "BPS rilis data beras, tunjukkan data kementan salah, 23 October 2018 <https://tinyurl.com/ydeywtu4>

¹⁶ *Nikkei.com*, "Thai rice exports on their way to the 10m-ton mark", June 4, 2018. <http://tinyurl.com/y56lc42f>

capita.¹⁷ Therefore, just in terms of paddy fields per capita, it is too far to go for Indonesia to follow the path of Thailand as a rice exporting country.

Expanding rice production areas in Indonesia is not easy. The only available areas would be on islands outside Java and Bali. However, farmers on islands outside Java and Bali are not interested in opening paddy fields because they are less productive than other crops, such as palm oil. When we consider Indonesia as one economy, expanding rice fields is not recommended when other uses of scarce lands produce higher yields and thus contribute more to the economy as a whole.

Thus, the remaining viable option would be to increase the productivity of the existing paddy fields, especially during the dry season. This would require a lot of effort, especially building agriculture infrastructure, which has been neglected for a long time since the financial crisis, which left many dams and irrigation facilities dilapidated. The current government has initiated dozens of dam projects – the target is 65 dams by 2019 – and had thousands of water catchment and irrigation facilities repaired or built through the village fund.¹⁸ However, as President Jokowi said, the existing dams and thousands of repaired irrigation facilities would only be enough to irrigate 20 percent of paddy fields. So, more efforts are needed to increase rice production without expanding paddy field areas.

Increasing rice production is only one aspect of food security. The other side of food security is keeping food prices affordable. That is exactly what has been done by all the presidents of Indonesia, who put more emphasis on the stability of food prices than production. That is the reason behind all that importation of agriculture produce, including rice. Moreover, as stated above, when other uses of land produce greater yields than rice, it is only logical to use the land for crops other than rice. Thus, importing rice will benefit the country as a whole.

Overall, according to the UN's Food and Agriculture Organization, agricultural trade balance is a poor predictor of economic performance. A declining balance could be associated with negative economic and developmental outcome, such as countries that depend on shrinking export earnings and are forced to divert the scarce foreign exchange to pay for food imports. For some countries, however, a declining agricultural trade balance is associated with economic development and progress toward more diversification and increased welfare. A good example of this is South Korea. A declining agriculture trade balance can also reflect rapid demand growth, such as in China, where increasing importation of vegetable oils such as palm oil has contributed to improved food consumption and was paid for by rapidly growing earnings from exported manufactured products.

Indonesia is apparently not a country with shrinking export earnings. On the contrary, exports are on the rise, including exports of agricultural produce such as palm oil, which contributes more than 10 percent to the total exports. A deficit in rice trade should be seen from a bigger perspective, as the country is shifting toward more diversification of its economy from one agricultural product to more products and from agriculture to manufacturing and services. Thus, importing rice is not a sin for Indonesia.

¹⁷ Boondit Varinruk, Rice Department, MOAC, Thailand, "Thailand Rice Production and Rice Research and Development on Climate Change," April 19, 2017. <http://tinyurl.com/y4s4awb8>

¹⁸ *Liputan6.com*, "Dalam 4 Tahun, Pemerintah Telah Bangun 43 Bendungan", October 26, 2018. <https://tinyurl.com/yxh4rsf6>

It's time for airlines to lower air fares

Air transportation users were surprised to find airfares remained relatively high in the middle of January and as late early February, despite the high season supposedly ending. Not only that, customers of courier companies also complained that their goods were delivered late to their destinations. They found out later that the courier companies had used land and sea transportation means instead of airlines because of rising freight charges. This situation led to public outcry, prompting the government to intervene.

Takeaway:

- The current airfare and air cargo rate hikes were driven by the service providers' need to fund their operations in an unfriendly market.
- Fluctuating oil prices, volatile currency exchanges and the government's rejection of the airlines' demand for a higher price ceiling forced players in the industry to exploit the existing regulations in order to survive.
- The low-cost carriers' new policy to charge for checked baggage and the air cargo rate hike were just part of a strategy to survive in a precarious market situation.
- Now is the time for airlines to lower airfares because of falling oil prices and a stable rupiah.

Background: Air transportation users complained loudly following spikes in airfares for domestic flights on several major routes in January. Direct flights from Jakarta to Aceh, Surabaya and Denpasar were reportedly 1.5 times higher than their normal prices. The situation prompted some customers to take international routes to reach their destinations more cheaply. For example, some had taken a transit route to Kuala Lumpur, Malaysia, to go to Banda Aceh from Jakarta rather than taking a direct flight. *Kompas.com* reported that a direct one-way ticket from Jakarta to Banda Aceh in January cost around Rp 3 million (US\$213), whilst it only cost Rp 2 million for a return trip from Jakarta to Banda Aceh via Kuala Lumpur.¹⁹

Aceh acting governor Nova Iriansyah called on the government to intervene in the market, saying the situation could damage the national and regional economies. A lot of Acehnese and foreign travelers from Aceh, who wanted to process their legal documents (e.g. visas and passports), chose a detour via Kuala Lumpur in order to reach Jakarta.

Responding to the public outcry, Transportation Minister Budi Karya Sumadi said the government was committed to gradually cutting the ticket prices beginning in the middle of January, but until early February airfares remained stubbornly high.²⁰

To make matter worse, domestic budget airlines, which normally provided a free luggage allowance of up to 15 kilograms per ticket, began to charge for checked-in luggage. The soaring airfares and luggage charges prompted people to reschedule or even cancel their travels and this led to a large number of flight cancelations. In January alone, a total of 1,046 flights were canceled from Adi Sucipto International Airport in Yogyakarta because of a falling number of passengers. According to the airport's general manager Agus Pandu Purnama, the number of

¹⁹ *Kompas.com*, "Banda Aceh – Jakarta bisa Rp 3 Juta sekali jalan, via Kuala Lumpur Rp 2 Juta PP," Jan. 1, 2019. <https://tinyurl.com/y2q4dttq>

²⁰ *Tribun Jakarta.com*, "Menhub janji tertibkan kenaikan harga tiket pesawat dalam 2 hari," Jan. 13, 2019. <https://tinyurl.com/y68zpt47>

passengers fell by 13 percent from the previous month, compared to a decline of 1 percent in January 2018.²¹

Airlines raised not only passenger airfares but also air freight charges, and this seriously affected courier companies. Express Couriers Association of Indonesia (Asperindo) chairman Mohamad Feriadi said on Feb. 2 that air freight charges per kilogram had tripled since July 2018.²² This situation threatened courier businesses, some of which had canceled their express services and shifted to land and sea transportation to deliver their goods. Some Asperindo members had even threatened to call for a strike against commercial air freight services to gain public attention. The plan was eventually called off after the Transportation Ministry brokered mediation between representatives of Asperindo and the Indonesian National Air Carrier Association (INACA) last week.

The government, through the State-Owned Enterprises (SOEs) Ministry, pulled another string, instructing state-owned Garuda Indonesia to cut its airfares, hoping to persuade other airlines to follow the step. The company – including its subsidiaries, low-cost carrier Citilink Indonesia, NAMAir and Sriwijaya Air – agreed to cut their fares by 20 percent beginning on Feb. 14.

Insight: The current situation in which airlines are increasing passenger fares and cargo rates is actually understandable in a free market. Moreover, the situation is precarious for the airline industry because fuel prices have been rising in the past two years, although recently receding, and the rupiah has been weakening while rupiah-denominated fares remained the same. However, the sudden fare increases that all airlines applied at the same time raise eyebrows and logically draw public outcry.

It is public knowledge that Indonesia's airline market is dominated by only two players, the Garuda Indonesia groups, including Citilink and now NAMAir and Sriwijaya Air, and the Lion Group, which includes Lion Air, Batik Air and Wings Air. Together they control more than 80 percent of the market.²³ If the two groups were to sit down and discuss ways to improve their performance, they could easily do so. However, their actions are limited by various government regulations. For instance, they cannot set air fares at whim as the government set the limits for lowest and highest fare.

What happened in January and February was that these airlines kept their prices at the higher level of the fare limit set by the government. In this case, they did not breach the rules. In terms of cargo rates, the government does not set the limits, but it can intervene whenever there is a conflict between courier companies and the airlines, like what happened recently.

The cargo business has been rising fast in the past five years, especially with the booming of online shops and ecommerce businesses. According to the Transportation Ministry's Air Transportation Directorate General, the amount of goods sent as air cargo increased from 1.11 million tons in 2017 to 1.12 million tons in 2018. Meanwhile, the number of passengers nosedived by 10 percent to 126 million in the first 11 months of 2018 from the same period in 2017.²⁴ The shifting trend thus became a reasonable excuse for airlines to raise their air cargo

²¹ Kompas.com, "1.046 Penerbangan di Bandara Adisutjipto Yogyakarta Dibatalkan Selama Januari," February 7, 2019. <https://tinyurl.com/y384dgoj>

²² *Bisnis Indonesia*, "Wacana Boikot yang berujung damai," Feb. 11, 2019, p. 26.

²³ CNBCIndonesia.com, "Incar 51% Market Share, Garuda Caplok Sriwijaya Air," November 14, 2018. <https://tinyurl.com/y3b4kuch>

²⁴ *The Jakarta Post*, "Airfare hike pushes couriers to land, water," Feb. 20, 2018, p. 1

rates as a new source of income. However, a tripling of cargo rates in less than one year poses serious threats not only to the courier business but also to ecommerce.

The recent uproar is the culmination of what has been happening since the beginning of 2018 when airlines suffered from the rising price of aviation turbine fuel (avtur), aka jet fuel, as international crude oil rose above US\$60 per barrel from \$50 in the previous year. Airlines demanded the government increase air fare ceilings to compensate for the fuel price increase, but the government denied the request over concern for the people's purchasing power and its impacts on inflation.²⁵

Fuel Price Analysis by International Air Transport Association (IATA)

As of 15 February 2019	Share in World Index	Cents/Gallon	\$/Barrel	\$/Metric ton	Index Value 2000 = 100	VS. 1 week ago	VS. 1 month ago	VS. 1 yr ago
Jet Fuel Price	100%	195.19	81.98	646.40	224.10	5.4%	7.9%	5.1%
Asia & Oceania	22%	177.17	79.03	624.35	225.81	4.6%	8.3%	1.3%
Europe & CIS	28%	195.23	82	646.13	220.92	5.5%	8.4%	3.6%
Middle East & Africa	7%	185.62	77.96	615.1	232.81	5.2%	9.0%	1.6%
North America	39%	199.87	83.94	663.16	223.17	5.8%	7.2%	8.7%
Latin & Central America	4%	204.58	85.92	661.6	238.02	5.8%	8.5%	8.0%

Source: IATA

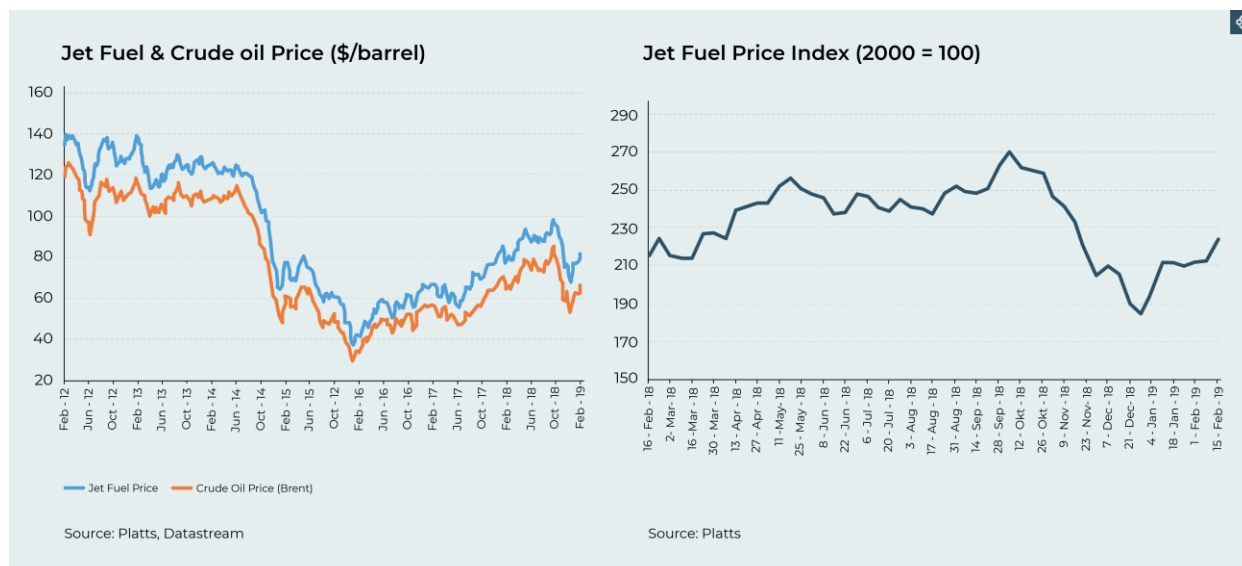
According to INACA chairman I Gusti Ngurah Askhara Danaputra, aka Ari Ashkara, a jet fuel price increase burdens airlines most as it contributes 40 to 50 percent to the price of a ticket. Ari also stated that airline ticket prices had not increased since 2016 despite the increase in avtur prices and the rupiah's depreciation against the United States dollar. As a result, many airlines suffered. National flag carrier Garuda Indonesia, for instance, saw its operational expenses climb by 14.2 percent year-on-year to \$3.2 billion from January to September 2017, which could be attributed to greater fuel and maintenance expenses.²⁶

With mounting operational expenses, airlines have no choice but to raise their prices within the regulated threshold and exploit prevailing regulations. Ari Ashkara stressed that airlines had to deliberately innovate and "adapt" to survive. The case of low-cost carriers changing their checked baggage charges is one example. Other examples are placing on-board advertisements and benefiting from the growing air cargo business.

Taking all these factors into account, airlines are indeed difficult businesses to run. They face a lot of uncertainties from avtur prices and the rupiah exchange rate as much of their spending is in US dollars. Yet, in the case of Indonesia, their hands are tied because they cannot set ticket prices as they like. At the same time, they are heavily regulated in terms of safety standards. They live at the mercy of regulators and the ever-demanding customers.

²⁵ Ibid.

²⁶ *The Jakarta Post*, "INACA calls for higher base fare," Oct. 27, 2017. <https://tinyurl.com/y6sxn7q7>



Economic class airfare for jet engine plane (Thousand rupiah)

Route	Price ceiling	Price floor
Jakarta-Semarang	932	280
Jakarta-Pontianak	1,518	455
Jakarta-Yogyakarta	998	299
Jakarta-Palembang	982	295
Jakarta-Surabaya	1,372	412
Jakarta-Padang	1,706	512
Jakarta-Denpasar	1,651	495
Jakarta-Medan	2,108	632
Jakarta-Makassar	2,144	643

Source: Transportation Minister Regulation No. 14/2016

In a regulated market and amid tight competition, airlines must eventually balance their own interests for profits and the customers' interest for affordable tickets. Customers understand high airfares in the high season but expect low fares during the low seasons. The airlines' decision to lower airfares in February is just a logical corporate action, not as a response to the transportation minister's demand or noisy customers, but because it was the end of the high season.

Besides it being the low season, airlines would need to lower their airfares now because international crude oil prices were back to \$50 per barrel and the rupiah had stabilized below 14,000 per dollar. The pressure on airlines has gone.

What we've heard: Courier companies grouped in the Express Couriers Association of Indonesia (Asperindo) have taken various steps in protest at sharp increases of freight charges, including sending a letter to President Joko "Jokowi" Widodo on Jan. 16.

In its letter No. 004/DPP.ASPER/I/2019, Asperindo complained about the rising air freight charges, which jumped by between 122 and 352 percent during the last six months and asked the President to intervene. Asperindo also provided the President with the list of airlines that had raised their freight charges, the percentages by which they had increased and when they began implementing the price increase.

Asperindo did not stop there. It also reached out to some figures within the President's inner circle. Their efforts eventually bore fruit. On Feb. 8, the air transportation director general at the Transportation Ministry invited the association for a meeting with representatives of flag carrier Garuda Indonesia.

According to one participant, the meeting was unproductive. Garuda only presented its argument as to why it had decided to increase freight charges and even accused courier companies of taking overly large margins at the expense of the airline. The air transportation director general even tried to persuade the association to accept the price increases to help Garuda improve its finances after the carrier suffered losses in the past three years.

Two days before the meeting with Garuda, Economic Coordinating Minister Darmin Nasution invited the association for a talk. The talk did not produce anything. A few days later, Darmin's deputy on business and industry coordination Bambang Adi Winarso followed up the meeting and met with Asperindo. According to one participant, however, the meeting was limited only to information sharing and data gathering.

Having obtained no positive outcome from the meetings, the association sent another letter to the President on Feb. 13. This time, it sent it through Cabinet Secretary Pramono Anung but still to no avail. The association received no response.

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